

2). Wind Insurance Mitigation

The Mississippi Windstorm Underwriting Association (MWUA) is a statutorily created, legislatively required, unincorporated association of all insurance companies writing property insurance in Mississippi on a direct basis. Every insurer is required to be a member of the Association and to proportionately participate in the losses of the association. MWUA provides a market for windstorm and hail insurance by mandatory participation by property insurers operating in Mississippi. Any person having an insurable interest in real property in Harrison, Hancock, Jackson, Stone, George and Pearl River Counties may obtain wind and hail coverage from MWUA. MWUA does not operate to make a profit. It is overseen by a board appointed by the Commissioner of Insurance for the State of Mississippi.

As a result of Hurricane Katrina, 16,000 policy holders in the MWUA, almost all of whom have already incurred devastating personal losses from the storm, are facing up to a 400% increase in their annual premiums for wind and hail insurance. This economically debilitating increase results from a spike in wind risk reinsurance rates for high risk properties on the Mississippi Gulf Coast as a result of Hurricane Katrina. Currently a MWUA policy costs \$2,376 per year for \$100,000 coverage on contents and \$200,000 for the structure of a frame house south of Interstate 10 with a \$500 deductible. Under the new requested rates, the annual premium for the same house and contents will be \$11,826.

Prior to Hurricane Katrina, MWUA wrote approximately 16,000 wind and hail policies for property on the Mississippi Gulf Coast with a total combined insured value of approximately \$1.8 billion. Virtually all of these properties had been rejected for coverage by private insurers. These are policies of last resort for the property owners and mortgage lenders.

For the 2005 hurricane season, MWUA maintained \$175 million in reinsurance coverage and has incurred losses in excess of \$600 million. It is expected that these losses will climb to \$720 million. This will require member companies to fund an estimated \$545 million loss above the \$175 million available reinsurance coverage.

Post Katrina, MWUA has raised its reinsurance limits to \$350 million for the 2006 hurricane season. The cost for \$350 million in reinsurance for the 2006 hurricane season is \$43 million - up almost \$34.2 million from 2005's \$8.8 million premium. Without reasonable reinsurance, insurers will be reluctant to write property insurance anywhere in Mississippi because of exposure to MWUA assessments

This increased cost will be passed through to the consumer. In fact, MWUA has filed for rate increases to raise the additional \$34.2 million cost for reinsurance caused by this post-Katrina surge. This rate increase request has been filed with the Commissioner of Insurance for the State of Mississippi

In addition to the \$360 million for utility customers, the State will make a grant of up to \$50 million, (payable over 2 years) to the MWUA to defray the additional cost to the

consumer of wind insurance obtained from MWUA. The Commissioner of Insurance will validate and verify the rate request of the MWUA and attest to MDA that the grant payment is appropriate and accurately supported. While this grant will not negate the need for a rate increase, it will certainly reduce the size of the rate increase. Because rate hearings are currently underway, it is difficult to determine the final impact. If rates increased from 75-150% (for \$100,000 in contents and a \$200,000 framed house), rates would be in the range of \$4,000 - \$6,000.

The surge in reinsurance costs for the wind pool plan is directly related to the cost of and lessons learned from Hurricane Katrina. The five times increase is a spike in reinsurance costs. Many industry observers believe that absent another huge storm, reinsurance costs will substantially decrease for the 2007 hurricane season. With a grant to cover the surge in reinsurance cost, the Association can reduce the amount of premium increase needed for 2006. If the reinsurance cost goes down as expected in 2007, a four times premium increase will not be necessary. If reinsurance rates do not go down in 2007, the MWUA will have to request a rate increase to fund the cost of reinsurance, but the 16,000 policyholders will have had two years to recover from Hurricane Katrina losses before facing this additional cost.